

# **Russian hi-fi audio market**

Market Research for Prime Loudspeakers Oy  
Ltd.

Tatiana Gordeladze

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JYVÄSKYLÄN AMMATTIKORKEAKOULU  
JAMK UNIVERSITY OF APPLIED SCIENCES

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# 1 Introduction

Nowadays, many companies are willing to go international due to the potential of the growing markets and new opportunities, technologies and resources. It was a common belief to think that just big corporations can be international and expand their businesses to the new markets throughout the world. Today there are no restrictions, and more and more small and medium sized enterprises go international. Furthermore, throughout research, the author will use abbreviated term SME for small and medium companies. Speaking about SMEs and their progress, Toulova, Votoupalova and Kubickova (2015, 4) define that one of the strategies for an SME's growth and competitiveness development is to be involved in the internationalization process. The Russian market, in particular, is an attractive place for Finnish companies due to their strong business and economic relations over the decades. For many SMEs, especially in eastern Finland, Russia is one of the top priority countries in which to establish international operations. The major export partners of Finland are: Russia, Sweden and Germany. (Economy Watch Content, 2010) Therefore, Russia is a potential area for Finnish companies to expand their market.

The aim of the thesis is to make a business survey to analyze the Russian hi-fi audio market as a potential target for the international operations of a particular case company Prime Loudspeakers Oy. The company is aiming to enter Russian market of electronics, by introducing their product - professional stone loudspeakers with flat frequency response (Hi-Fi and Audio Pro). The soap stone material makes the Prime loudspeakers so special and attractive to foreign markets.

The Russian market of electronics is considered the most perspective and fastest growing in Europe. As for the sales of video and audio equipment, 2005 was a year of strong growth. Figure 1 shows the structure of the Russian market of electronics, where 38% of the market share belongs to audio and

video equipment. Even though that this cluster is fulfilling the needs of the customers mostly through importing foreign electronics.

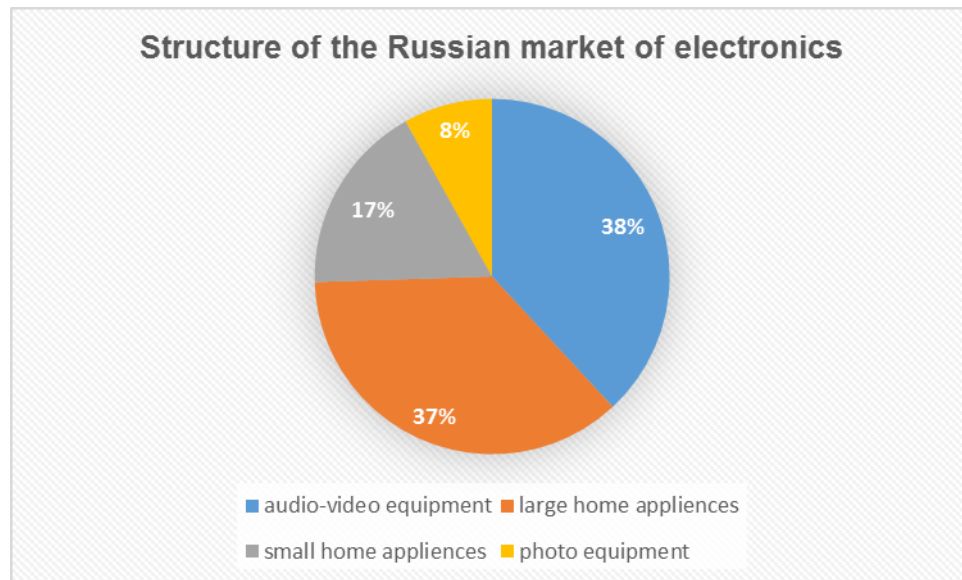


Figure 1. Structure of the Russian market of electronics (Economy Watch, 2010)

This research is to investigate and collect possible data, which will assist the case company to make a decision whether to enter the Russian market of electronics or not, the sector of hi-fi equipment in particular. Furthermore, the study concentrates on the research of the internationalization of SMEs, the motives of internationalization, entry modes and analyses of the new market.

### 1.1 Significance of the Russian market for Finnish Small and Medium Companies (SMEs)

According to SITRA report, there were over 3,700 Finnish companies exporting to Russia by 2006 and more than 80% of them were SMEs. (Ollus, Simola, 2006). It demonstrates the value of the Russian market for the Finnish SMEs to conduct their businesses. Furthermore it shows that the Russian

market is ready for the Finnish companies to start their operations. Russia is the most attractive country for the Finnish SMEs to establish international operations. One of the main reasons is the geographical location. It makes things easier in terms of logistics and consumption of resources. There is less chance of facing the risk and making losses. Russian customers tend to consume foreign products, especially from Finland. Various products that have been exported from Finland have a strong image of high quality.

In 2012, Russia was Finland's largest trading partner and second largest export market after Sweden. The volume of trade in 2012 was 16.2 billion euros, of which exports are 5.7 billion euros and imports 10.5 billion euros. The increase in exports to Russia was seven per cent from the previous year, while at the same time Finland's total exports remained unchanged. Exports to Russia consisted mainly of various machinery and equipment, chemical products, paper and board products, and food products. (Nieminen et al. 2013)

The size and diversity of the Russian market make it a good test platform for Finnish enterprises to experiment and try out new ideas. Mostly products or services that require a large user base are easier and more cost effective to test in Russia than in Finland.

## **1.2 Company overview**

Prime Loudspeakers Oy Ltd. is Finnish small size enterprise, which produce a range of innovative loudspeakers. It is known for its high quality, innovativeness and teamwork. The company manufactures speakers using a very special stone located in the Finnish Region of North Karelia: the miraculous and ancient steatite. It is the best possible material for the cabinets of the speakers, together with good technical properties and patented way of manufacturing. Prime loudspeakers achieved the status of the first class sound quality by combining the massive structure of soapstone with modern

designs and electronic components. (Prime Loudspeakers, 2014). Due to all the good qualities and unique materials the speakers are named by the company as “Kings of the Stone Age”.

Prime Loudspeakers Oy Ltd. started its operations as a small domestic company with a narrowed market niche. It has specific unique product, which distinguishes the company and makes it different from the others. There are many different companies which produce loudspeakers, but the quality, environmentally friendly materials, pure sound, unique design and innovative approach makes Prime loudspeakers stand out from the others and bring the motivation to go international. As it stated on the main web page of Prime Loudspeakers, the stone in all views, is the best material in the world for getting the most natural and beautiful sound in combination with innovative electronic elements and skillful hands.

Prime Loudspeakers has collaborators and partners inside the country as well as abroad. It indicates the strengths and attractiveness of the product. Among the international collaborators is Aloud Music Ltd. in Barcelona as well as famous SEAS in Norway, producing drivers for Prime loudspeakers. The team of Prime Loudspeakers Company constantly develops new designs and products with the goal of bringing more innovative and high-quality products for professional and hi-fi usages. The products have the "Key Flag Symbol" granted by the Association for Finnish Work because they are manufactured in Finland. (Prime Loudspeakers, 2014)

### **Prime Loudspeakers Product Portfolio**

Prime Loudspeakers is a new brand of stone speakers made of steatite/soapstone. According to Geoscience news and information (2005), soapstone is a metamorphic rock, which consists mainly of talc, with assorted amounts of chlorite, micas, carbonates and other minerals. Due to its structure, which is normally very soft, it makes easier to bring some shapes for the loudspeakers on the production stage.

Prime loudspeakers belong to hi fi audio equipment. The term hi-fi officially appeared in the 70th and meant the maximum approximation of the reproduced sound to the original. Over the years the hi-fi audio products are considered to be an expensive, high quality equipment.

Prime Oy loudspeakers are passive, shelving acoustics. Passive means that the speakers go separately from the amplifier. Prime Oy has a catalogue with 6 main types of loudspeakers: Prime Moon, Prime Tone, Prime Neox, Prime Impressive, Prime Festive and Prime Tone Leopard. Each of them has good technical dimensions and a natural sound.



Figure 2. Prime Loudspeakers (Prime Loudspeakers brochure, 2014)

All the models of Prime Loudspeakers have a flat frequency response, which provides the opportunity to play exactly what is recorded so that there is a balance between different hearing levels: low, mid and treble. The purpose of this balance is to adapt to the frequency range of human hearing. The company`s main intention is to launch to the market an aesthetically impressive, acoustically perfect speakers for the people who see music as a fundamental part of their lives and work. (Prime Loudspeakers, 2014)

### **Existing Target Audience**

Selecting the right customers is crucial, especially if the resources are limited and the brand is not well known. Therefore the building of customer profile is important to identify the suitable target group for the product. Building a customer profile is a way of describing the individuals who create your target market. A customer profile can provide a clear picture of type of a person or a



business you are planning to maintain. This information helps to drive your marketing strategy, promotional design, and sales process. (Kauffman Foundation, 2007)

Market of the hi-fi equipment and its accessories is divided on the products, which are oriented for certain customers: audiophiles, people who work in music industry (recording studios) or just value the good sound of the music. There is a wide range of different types of hi fi acoustics. They vary by the method of installation and size, by the frequency range and by the price, depending on the brand, technical parameters, used components and materials of the body. Due to all the classifications and characteristics, the main existing audiences of Prime Loudspeakers are broadcasting, recording studios and audiophiles.

### **Audiophiles**

An audiophile is a person enthusiastic about high fidelity sound reproduction. (Dictionary.com, 2014). This group of people values not only good quality music reproduction, but also the unique devices or designs, from where you can get high quality sounds. Prime Loudspeakers has the required technical features to satisfy the needs of audiophiles, as well as providing a custom based stone designed speakers. It has two features in one, high quality music reproduction as well as unique design.

### **Broadcasting**

Broadcasting is the distribution of audio and video content to an audience through any electronic mass communications medium. The most popular ways of broadcasting are through television and radio with various broadcasting companies all over the globe.

Prime Loudspeakers Oy is cooperating with the Finnish broadcasting company YLE. Through this cooperation Prime Oy is known on the Finnish market. Furthermore Prime Oy had a chance to be present on the Russian market by participating in broadcasting sport events in Sochi Olympic Games.

Tommi Slotte, the sound designer of YLE Radio, music and outdoor production, has said: *“These speakers, as they are now, would be a highly recommended acquisition for many different kinds of environments. At home, Prime Tone inspired me to listen for a long time. For professional use and based on its reliability and its analytical behavior they definitely are the elite in its class”*. (Prime Loudspeakers, 2014)

### **Recording Studios**

A recording studio is a facility for sound recording and mixing. Recording studios use loudspeakers as reference monitors to record music in a flat frequency response. The product of Prime Loudspeakers Oy is a good solution to record music in flat frequency response, due to its structure and technical parameters. Additionally, Prime Oy has already cooperation with some recording studios as their distributors. Jeroen Egge and Igor Fornerino, audio engineers at the recording studios Utrecht, the Netherlands, in their review of Prime Tone Leopard, stated that they enjoy to work with such great tools and totally recommend these loudspeakers to any other mixing/recording engineer, audiophile or music lover who is in search of some new studio monitors, hi-fi speakers or home cinema speakers. (Prime Loudspeakers, 2014)

### **1.3 Research objectives, research questions**

Market research is defined as a systematic and objective process of collecting, recording, analyzing and interpreting data for assisting in solving managerial problems. The managerial problem can refer to any business function and is essential in identifying possible opportunities and threats. (Wilson 2010, 3). In this particular research, the author is aiming to provide information about the market situation of hi-fi audio equipment in Russia, helping the case company to make the right managerial decision regarding business operations in Russia. In order to meet with the needs of Prime

Loudspeakers Oy, the author followed the steps introduced by Malhotra (2010, 41-42) and defined the problem of the research, developed an approach to the problem, through research questions, formulated the research design, and collected and analyzed the data.

Research objectives state what the researcher has to do in order to carry out the research. (Burns and Bush 2006, 29). The main aim of this research is to analyze the Russian market of hi fi audio equipment in order to help the case company, Prime to make a decision whether to expand its operations to the Russian market or not. As the research objectives, the author will define the market of hi-fi audio. In addition to that potential customers and competitors will be revealed, as well as the assumptions of the experts about future possibilities of the product will be described. Based on the objectives, the following research questions are set up:

**Market:**

- What is the hi-fi audio market in Russia?

**Customers:**

- Who are the potential customers?

**Competitors:**

- What is the level of competition? Who are the competitors?

In business, research is normally related to a particular organization and the respective industry. The intent of a research is to help to make right business decision, to reveal stated objectives and research questions for Prime Loudspeakers Oy and throughout the study come up with an outcome for the case company.

## **2 Internationalization proccess for SME companies**

### **2.1 Challenges of internationalization**

Nowadays, internationalization affects all the firms, no matter a big corporation or a small and medium sized company (SME). Moreover, there is no unified definition of internationalization. Every author brings their own approach or thought to this process. Nevertheless, the most common way to define internationalization is as a process of increasing the involvement of enterprises in international markets. According to Johanson and Vahlne (1990), internationalization is a way in which the company little by little increases its intemational involvement. Whereas for Hynes (2010, 87), internationalization is a way for business growth where businesses want to expand their activities outside domestic markets. For Calof and Beamish (1995,) internationalization is the process of adaptation of all the company's activities, strategies, resources, structures etc. to the international environment. In all the definitions given by different authors, the main idea of internationalization is an expansion to new markets, where the companies widen their scope and adopt their business activities outside of the home market. It can be seen like an opportunity to go beyond the domestic market and test one's potential in the new market place. It is regarded as a relatively risky step because a company cannot be one hundred percent sure of the outcomes of their activities in the new market field.

Currently, many companies are willing to go international due to the potential of the growing markets and new opportunities, technologies and resources. It was a common belief to think that just big corporations can be international and expand their business to the new markets throughout the world. Today there are no restrictions, and more and more SMEs go international. The main reason for that is their small size and flexibility in business operations. Neither do they require many resources nor, in the case of a failure, it does not affect them as painfully as larger companies.

Speaking about SMEs and their progress, Toulouva, Votoupalova and Kubickova (2015, 4) define that one of the strategies for an SME's growth and competitiveness development is to be involved in the internationalization process. According to Albaumb, Stranskov & Duerr (1998), the objective of a firm's internationalization is influenced by the opportunities of the foreign market. Occasionally, the situation at the home market is not stable, due to the economic situation of the country, small market size, lack of customers etc. There can be many reasons that motivate the company to expand and move its business activities abroad. Another big factor is the potential of the foreign market with a positive environment and stable economic, political or cultural situation.

Sometimes, the situation on the new market can be positive, but in some other cases it can be negative and cause challenges for the companies to enter a new market. In most cases, the foreign market situation can be defined by the economic and political situation of the country, as well as by cultural and financial aspects. In this case we can say that internationalization of SMEs has some advantages and disadvantages. One of the core advantages is the ability faster react to the changing business environment, compared to the large enterprises. According to Rammer and Schmiele (2009, 21), the internationalizing advantage of a firm belongs to the added value that a firm obtains when conducting business activities abroad in comparison to purchasing goods and services from local producers abroad. Based on Reddy and Naik (2011,46), and the listed advantages above we can say that small enterprises play a major role in the global economic growth in terms of their contribution to industrial employment, industrial output and exports. Nevertheless, there are some negative points with going international. As Carlof and Beamish (1995) pointed out, SMEs face some disadvantage when compared to large enterprises, which may prevent their growth in the local market as well as discourage them from pursuing international opportunities. A major obstacle to the expansion of an SME, in comparison to large firms, is the lack of resources. Lack of economy of scale, lack of financial and

knowledge resources, and aversion to risk-taking have been identified as the three critical constraints to swift industrialization of SMEs. (Freeman, Edwards and Schroder, 2006)

Many SMEs chose to go international, even though there are some disadvantages. There are many studies and researches conducted in order to follow up the internationalization process of SMEs. Mittelstaedt, Harben and Ward (2003) state out, for small enterprises willing to internationalize, the most common way is exporting, because it offers more flexibility in management actions, less business risks and demand fewer resources compared to other ways of entering foreign markets.

## **2.2 Motives for Internationalization**

In the time of globalization many firms are willing to expand their sales and operations into foreign markets. International expansion provides new and potentially more profitable markets as well as helps to increase firm's competitiveness and visibility, leads to new product ideas, innovations and latest technologies. In order to succeed by going international the firm has to be prepared in advance, by planning, collecting and analyzing information and knowledge of the potential market.

Internationalization motives can be differentiated into proactive and reactive motives. (See Figure 3.). Proactive motives represent stimuli to attempt strategy change, based on the firm's interest in exploiting unique competences or market possibilities. Reactive motives indicate that the firm reacts to pressure or threats in its home market and adjust to them by changing its activities over time. (Hollensen 2007, 42)

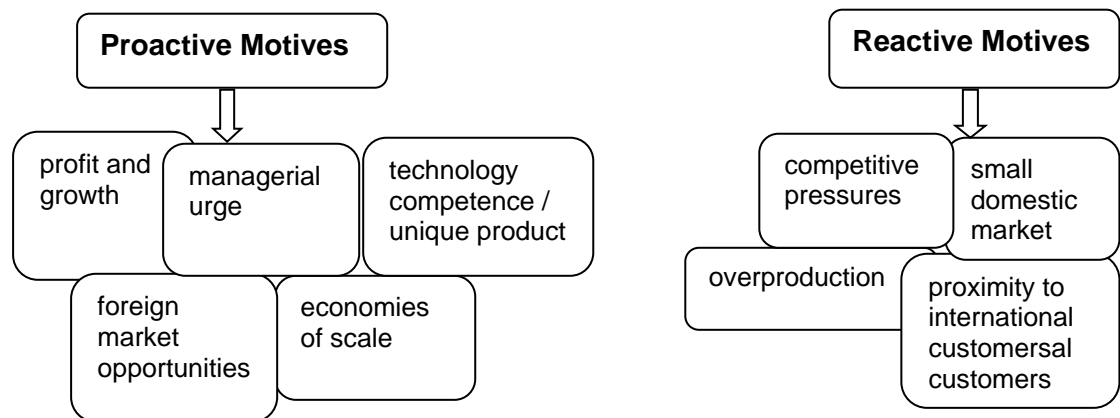


Figure 3. Motives for internationalization (adapted from Hollensen 2007, 42)

In the case of Prime Loudspeakers, the company wants to expand its market mostly due to some of the proactive motives, like new opportunities in the foreign market, visibility of their unique product.

### 2.3 Market entry strategies

When the company has clear motives and goals to go international, it has to make or follow the ready existing strategies to enter foreign market. According to Hollensen (2007, p. 291) an international market entry mode is an institutional arrangement necessary for the entry of company's products, technologies and human capital into a foreign country / market.

Therefore Root (1994) has three different rules to make the decision of the entry mode. The first one is naive rule, when the decision maker applies the same entry mode for all the foreign markets. The second is pragmatic rule, where the most workable entry mode is chosen for different countries and depending on its profitability may be changed. The last one is strategy rule, where the systematic approach is relevant. All the potential entry modes are examined and after the best decisions are made. It is common that many SMEs tend to use pragmatic or naive rule.

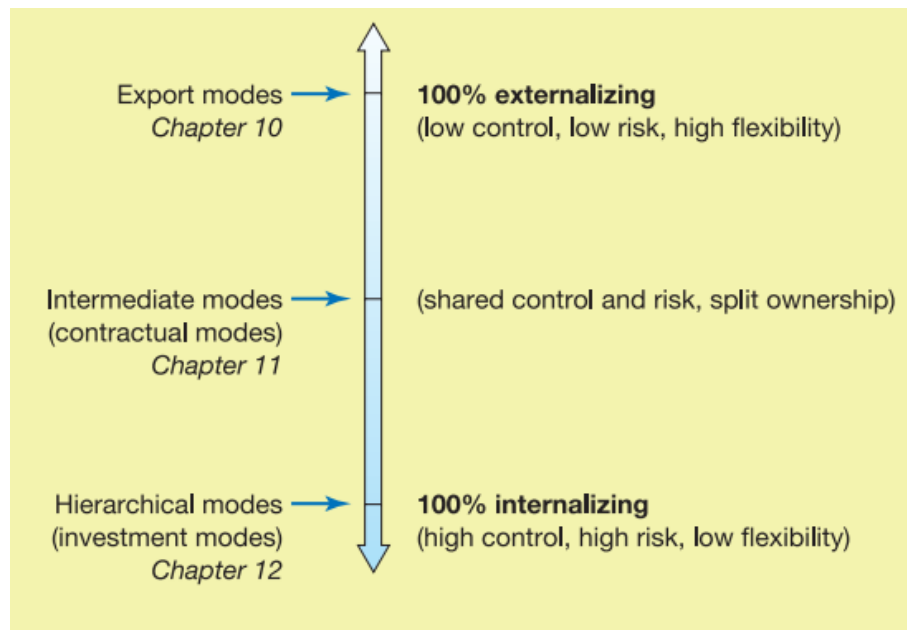


Figure 4. Classification of market entry modes (Hollensen 2007, 292)

The above figure illustrates various entry modes that the company may choose. The most suitable one for SMEs is export mode, because it has low control and low risk, together with high flexibility. It means that SMEs with small resources available have the ability without huge risk try their opportunities and go abroad. The most common way in the export mode is distribution. It is a good way to penetrate the new market.



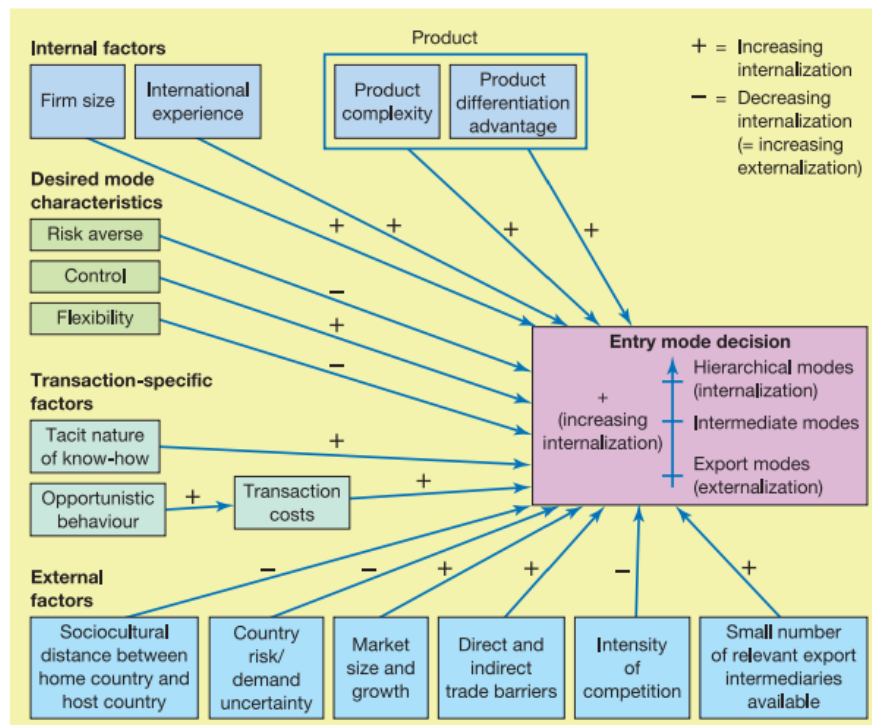


Figure 5. Factors affecting the foreign market entry mode decision (Hollensen 2007, 298)

Hollensen (2007) formed four groups of factors which influence the entry mode decision, illustrated in Figure 3. Those factors are internal, external, transaction-specific factors and desired mode characteristics. (297-298.)

On the figure 3 the signs “+” and “-” are pictured to demonstrate the influence of every illustrated factor to the entry mode decision. Based on that, company can move towards internalization or externalization. Figure 5 displays how each of the four factors influence the decision making of foreign entry mode. Through the estimation of its own situation according to the factors mentioned above, a company can figure out whether the suitable entry mode to a foreign market is closer to hierarchical or export mode.

#### **Adaptation of the 4 factors of ‘entry mode’ to foreign market for Prime Loudspeakers Oy case**

According to the classification of the factors influencing the choice of a specific entry mode, the author of the research applied the factors to the case

company and came to the conclusion of the most suitable entry mode for Prime Loudspeakers.

### **Internal Factors**

Complexity of the product: Prime Loudspeakers Company intends to sell its unique loudspeakers with stone made cabinets and other sustainable materials for the Russian market. +

Product differentiation advantage: Prime loudspeakers are very unique and have a very low level of alternative products, which makes the level of competition lower. +

Firm size: Prime Loudspeakers Oy can be considered as a SME, it has just started to develop its expansion and still has limited resources and low level of visibility on the international market. –

International experience: Prime Loudspeakers Oy is a small company, but over years it is trying to be involved in some international operations. The company is already expanded its market to the Netherlands and Spain. It was participating in the big event in Russia, Winter Olympic Games 2014. –

### **Desired Mode Characteristics**

Risk averse: Prime Loudspeakers Oy is a SME, which is trying to grow. This makes the company very accurate in decision making, it has to be careful in using and distribution its finance and other resources, because the company is developing and not very stable on the international market. -

Flexibility: Prime OY has a high degree of flexibility. It can fast react to changes and adjust to different situations that can occur on the international market. +

### **Transaction-specific Factors**

Tacit nature of know-how: The product of the Prime OY is complex, the technology and the process of production is tacit, and not easy to copy. +

Opportunistic behavior: The level of opportunistic behavior by Prime OY is high. +

## External Factors

Socio-cultural distance: In terms of culture and social behavior Finland and Russia have more differences than similarities. –

Country risk/demand uncertainty: Russia as a foreign market for Prime OY is a risky market. The uncertain economic environment and sometimes unpredictable political situation increases the ability of the company to be more prepared in facing risks and uncertainties of the demand. –

Market size and growth: As a country Russia is big, but considering the market size of the stone loudspeakers there is not large. The market size of the average loudspeakers has a bigger share. But it also brings the growth possibilities over the time, depending on the operations of the company on the foreign market. –

Direct and indirect trade barriers: Russia is not part of the EU and it will have some trade barriers and regulations, which it has to follow. –

Intensity of competition: The level of indirect competition is relatively high in Russia. –

Small number of relevant export intermediaries available: There are few intermediaries but none of them is familiar with the unique stone made loudspeakers of Prime OY. This is a sign of favoring internationalization. +

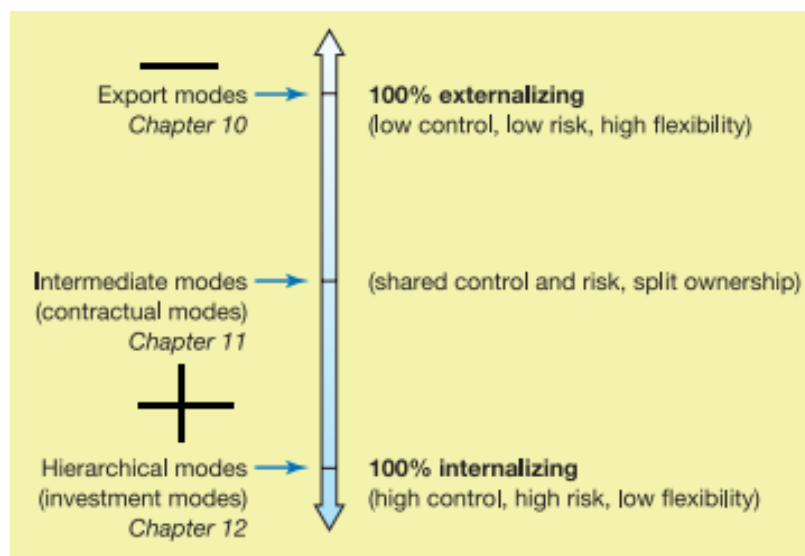


Figure 6. Classification of market entry modes (Hollensen 2007, 292)

According to the authors own analysis and calculation of pluses and minuses from the figure 6, the overall conclusion was made that the amount of minuses is in majority; therefore the entry mode for the Prime OY is export mode, in specific - direct export.

### **Direct Export Mode**

Direct export represents the most basic mode of exporting, capitalizing on economies of scale in production concentrated in the home country and affording a better control over distribution. Direct export works best if the volumes are small. (Exportea, 2015). Moreover, Terpstra and Sarathy add (2000, 412) that small firms that lack the resources for a greater commitment preferring to deal with distributors as the primary method for reaching foreign markets.

The decision of choosing the right distributor is very important because success in international market is mostly influenced by the operations of the distributor. In a way, a distributor is a customer for the manufacturer who wants to enter a foreign market. The manufacturer is looking for a distributor to sell their product, after which the distributor takes full responsibility for selling the product abroad. (Cherunilam 2010, 242) Based on the fact that a distributor is in a way a customer for the company which makes the product, it is very important to dedicate some time to the proper selection of the potential distributor, ask existing distributors in the particular industry, find out what distributors the competitors are using, attend trade fairs related to the industry. After all, the process of careful selection, according to Terpstra & Sarathy (2000, 412-413) includes certain things and conditions the company has to consider after choosing the distributor. The first step after the initial distributor selection is followed by a distributor agreement, financial and pricing considerations and marketing support and communications.

## 2.4 Entering Russian market

Russia is the largest country in the world, sharing the borders with 14 countries, including Finland. It is one of the world's most attractive developing market places both by size and growth potential. Over the years, after the crash of the Soviet Union, Russia has been building up its economic stability and strong position in the world.

According to the Global Competitiveness Report (2012–2013), Russia is 47th in the world for competitiveness, in terms of infrastructure. But it is 136th considering the quality of roads, 104th considering airline infrastructure, 93rd considering port infrastructure and 30th considering railway infrastructure although the country has risen three places since 2009 in relation to the latter indicator. According to the plans for developing the economic policy, Russia should be among the top 20 countries according to The World Bank rating by 2018. This can be achieved largely by developing the supporting infrastructure, such as transport, energy, utilities and communications. These fields require a paramount attention, and are the basis for the development of innovation and greater effectiveness of other economic sectors. (Ernst & Young's attractiveness survey, 2012)

Nevertheless, the current issues and the unstable relations with Ukraine brought out economic instability and sanctions set by the European Union. The actual economic situation in Russia is equivalent to being the middle of a currency crisis. In December 2014, the currency has lost 10% of its value. Due to such unstable national currency situation, the central bank supposes that the GDP could fall by 5% in 2015. Inflation is currently at 10% but is expected to accelerate rapidly. (The Economist explains, 2014)

Whenever the company decides to go abroad, it should consider the border barriers that it can face by entering new market. There can be two types of border barriers: natural and artificial. The natural barriers that the company can face are culture, customs and habits. (Kananen 2011, 19-23). Before

exporting the product to the international market it is very important to do some research and understand the culture and lifestyle of the target country, because even the small thing like color perception, or packaging can influence the success of the whole business operations between the countries. Another type of barriers identified by Kananen (2011, 23) is artificial, which includes tariffs, quotas, standards and regulations. All these information about the rules and export regulations are normally available on the countries official websites.

According to Nieminen, Siikaluoma, Koskela and Vilhunen (2013), the Ministry for Foreign Affairs carried out a survey on internationalization and barriers to trade in the autumn of 2012. The survey was conducted by the Team Finland in order to see the main trade barriers the Finnish companies face when going abroad, outside and inside the EU.

Figure 4 illustrates the trade barriers both by type and by sector. It demonstrates that even though trade with Russia has a lot of barriers, it slightly affects the consumer electronics sector, just by 1, 8 %. (Nieminen et al. 2013)

Trade barriers in Russia by type (N=402)			Trade barriers in Russia by sector		
#	Type of barrier, %	%	#	Sector	%
1	Customs procedures	20.4	1	Other	16.9
2	Customs tariffs levels	17.2	2	Building and interior decoration	14.4
3	Discriminatory product specifications	17.2	3	Machinery and equipment	13.1
4	Movement of persons	8.7	4	Metal, steel and mining industry	12.2
5	Public procurement	5.7	5	Services	10.8
6	Business environment	5.2	6	Food industry (including agriculture)	5.9
7	Intellectual property rights (IPR)	4.7	7	Chemical industry (including rubber and plastics, and cosmetics)	5.6
8	Quantitative restrictions and licensing	4.7	8	Textile and clothing industry	4.7
9	Tax problems	4.0	9	not defined	4.3
10	Other barriers and problems	3.7	10	Transport vehicles	4.1
11	Movement of capital	3.5	11	Forest industry	3.2
12	Legal status of the enterprise	3.0	12	Retail trade	2.7
13	Competition conditions	1.7	13	ICT (including consumer electronics)	1.8
14	Anti-dumping and countervailing duties and safeguard measures	0.2	14	Pharmaceutical industry	0.5

Figure 7. Trade barriers encountered in Russia by type and sector (Nieminen et al. 2013)

Based on the survey, made by Ministry for Foreign Affairs, the most important barriers to trade with Russia are customs clearance procedures. They are complex, time-consuming; require a lot of paper work and therefore expensive for companies. High import duties are perceived as another problem along with discriminatory and unreasonable product specifications (technical trade barriers), which accounted for less than one-fifth of the trade barriers involving Russia. (Nieminen et al. 2013). Despite some entry barriers, there is a big advantage for the companies who want to export to Russia. Russia entered World Trade Organization, thereby made the bureaucratic paperwork and clearance procedures less complex.

### 3 Research methods

It is very important to understand research philosophy while conducting any kind of research. This term refers to the development of new knowledge in a specific field. (Saunders, Lewis and Thornhill 2012, 127). Throughout the research process, the researcher is making assumptions which will determine the strategy, design, methods and the interpretation of the findings. Making a research is a complex process, including various stages. Therefore it is important to understand the nature of the research and its philosophes.

Generally, there are two main approaches to conducting a research: quantitative and qualitative. In the quantitative approach, the numerical data is being used or the data that can be quantified with the application of diagrams, structured interviews, attitude scaling. On the opposite side is qualitative research, where the skills and experience of the researcher play an essential role in the analysis of data. Qualitative methods are flexible and unstructured. (Ghauri and Gronhaug 2002, 86-88)

This research adopts both quantitative and qualitative approaches. It is based on the assumptions, worldview, and relevant theoretical material, as well as interviews, poll and forum groups. Thus, qualitative research relies on multiple sources of data, which makes the research more flexible and allows for getting information from various perspectives. Patton (1990, 10) defines qualitative data as “detailed description of situations, events, people, interactions, observed behaviors, direct quotations from people and experts about their experiences, attitudes and beliefs”. Therefore qualitative method was useful to get the insights of the situation on the Russian hi fi audio market, through being in forum groups, talking to people, observing behaviors towards the product. Quantitative method was used by conducting a poll.

A study is designed to explore the research problem, to make an investigation and find possible answers to the main research questions. The investigation can be done through communicating with people, getting information and



opinions from them. (Creswell 2007, 38-39). According to Brown, exploratory research tends to approach such new problems on which very little or no previous research has been done. (2006, 43). Hence, if there is lack of published information and knowledge about a given topic, the exploratory type of a research design is the most suitable. (Wilson 2010, 103)

The author conducted qualitative explorative research due to the need of a complex, detailed understanding of the issue. The main objective of this work is to understand the situation in the Russian market of audio equipment, hi fi loudspeakers in particular. A soapstone loudspeaker is an innovative product, which is not currently known in the Russian market. During the research process, the qualitative approach will help to gather a wide scope of information through multiple sources and draw a picture of the situation of audio equipment in the Russian market.

### **3.1 Qualitative data collection**

There are two sources of data: primary and secondary. Primary data is the one, which is being collected for the first time and thereby is original. According to Wilson (2010, 135-136), in primary data collection, you collect data yourself using a range of collection tools such as interviews, observation and questionnaires, which makes the data unique to your own particular study. On the opposite side, secondary data, the one which has been collected before by other researchers.

Based on Wilson (2010, 170) perspective, most research begins with secondary data analysis and according to the outcome, the researcher can decide whether to rely and use only secondary data or investigate more with primary sources. The author of this work started its research by using available secondary sources, but faced difficulties with unavailability of the required secondary data. Some of the materials needed for the research were weather unavailable or not free of charge. Therefore the author of this

research decided to use the obtainable secondary data and furthermore engage into some primary data collection, where also some obstacles were face. The reason for that was not willingness from the suitable people to communicate with the author without providing any payment.

As a secondary data the following sources have been used: brochures and catalogues of the case company, product reviews and company's publications, as well as books, journals and articles. To understand the potential customers, their tastes and preferences some forums and chat rooms were used as well as web sites and online magazines. To have an insight to the industry and countries economic situation, some official statistics and reports were additionally analyzed.

The amount of secondary data was not enough to answer all the research questions. It gave just the general facts and insights. In order to explore the research more detailed and build a sufficient empirical part, the primary data was applied through conducting several interviews as well as communicating with people in forums related to the use of hi fi audio equipment.

Interviews allow the researcher to gain an insight into a person's beliefs and attitudes towards a particular subject. (Wilson 2010, 138) The use of interviews helps to collect valid and credible data that will help to answer the research questions and objectives. (Saunders, Lewis and Thornhill 2009, 318). Therefore the author chose interviews as a way to get professional opinions about the product of the case company Prime, and see if there is a potential interest of this product on the Russian market.

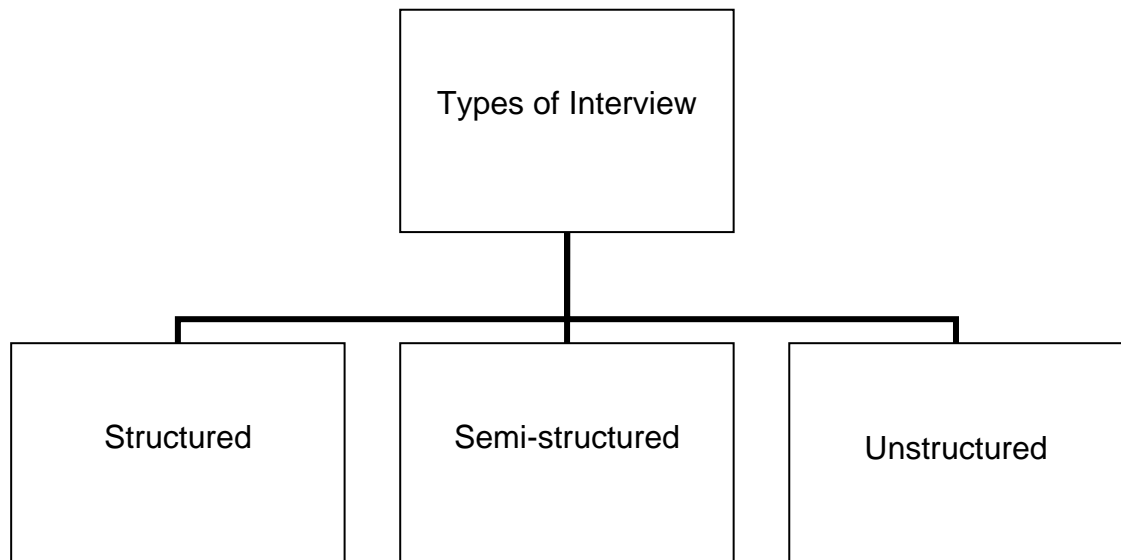


Figure 4. Interview Methods (adapted Wilson 2010, 146)

There are various methods to hold an interview. (See Figure 7.) It is up to the researcher to decide the method of interviews, depending on the type of the research. According to Saunders et al (2009, 323-324), Cooper and Schindler (2008) claim that in the exploratory studies unstandardized interviews used as a main source of primary data. Therefore unstandardized semi structured interviews were used for this research.

Table 1. Description of expert interviews

Segment	Company	Interviewee
online store of hi fi equipment, distributor	Pult.ru	hi fi specialist
broadcasting company	ATV	video designer
company, with chain of showrooms of hi fi and hi end equipment, distributor	Audiomania	hi fi specialist

The interviews were conducted electronically through internet. It was the suitable way to reach the interviews, because they are located in Russia. It was challenging to do interviews, because many of the potential candidates refused to be interviewed. Unfortunately it was the reason of having only three respondents. But these three are significantly important because they belong to the segments of interest of Prime Loudspeakers Oy. Therefore it was important and valuable to consider their opinions.

### 3.2 Quantitative data collection

In order to get an overview of the potential customers, a small poll was conducted. The survey consists of 9 questions and was distributed via Russian social network VK. It was sent to a few hi fi social groups. The survey link was open for answers for two months. Nevertheless, it received only 44 responses. So the total N=44, but some questions were skipped by several respondents. The survey had a picture of Prime Tone loudspeakers at the beginning with a short description and technical features.

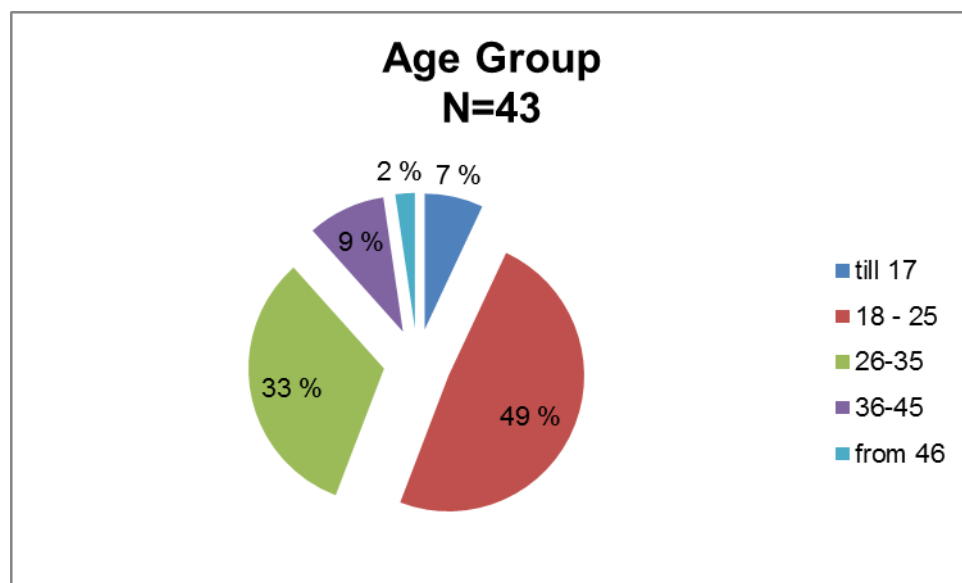


Figure 5. Age of respondents

Most of the respondents belong to the age group of those aged 18 to 25 between 18 -25. But the second age group is 26 to 35 -year-olds. So the main respondents are young and middle aged people.

Initially, the author of the research planned to concentrate only on the St.Petersburgh and Moscow regions as those two areas are geographically close and are the main players in the Russian economy with a big concentration of population. Nevertheless, the poll was open for every resident of Russia. The company can distribute the loudspeakers online, so they are available for the people living outside of Moscow or St.Petersburg.

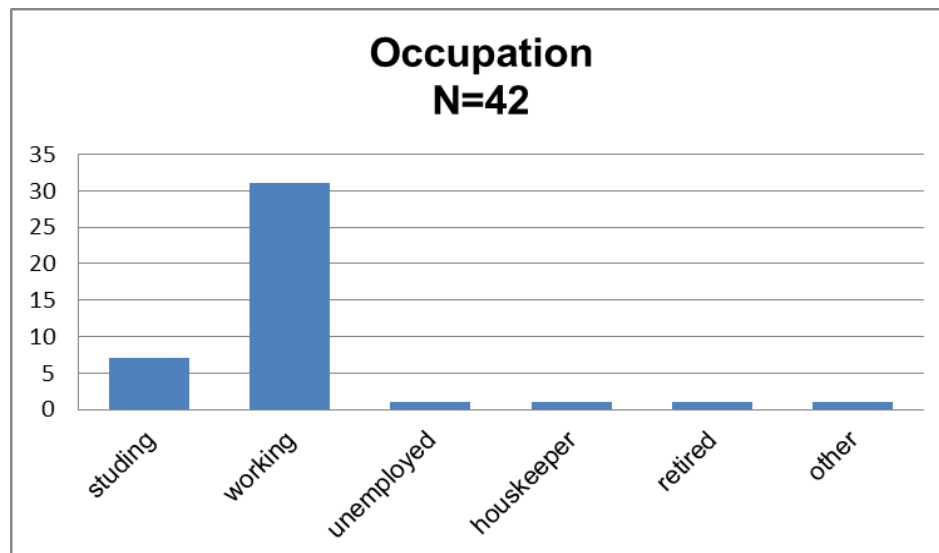


Figure 6. Occupation

By asking respondents their occupation it was important to look in the future creation of the potential customer profile, what kinds of activities and lifestyle people are pursuing, which will affect them getting the loudspeakers. Are they housekeepers, sitting at home and enjoying music, or are they working people, or? Thus, the majority of respondents 74 % are working people.

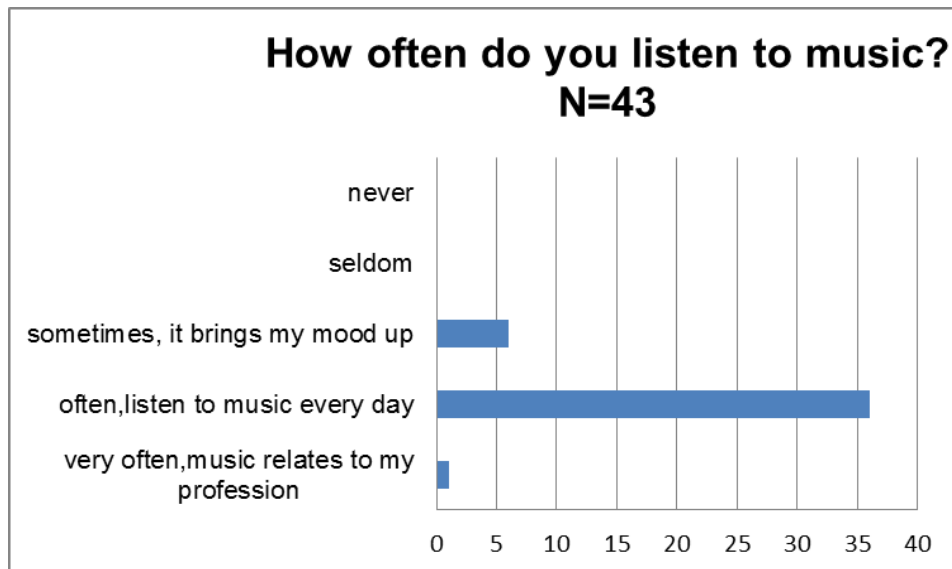


Figure 7. How often people listen to music

Based on the data from the poll illustrated by Figure 11, every tenths respondent listens to music. Thus, it can tell us that music plays an important role in people's lives.

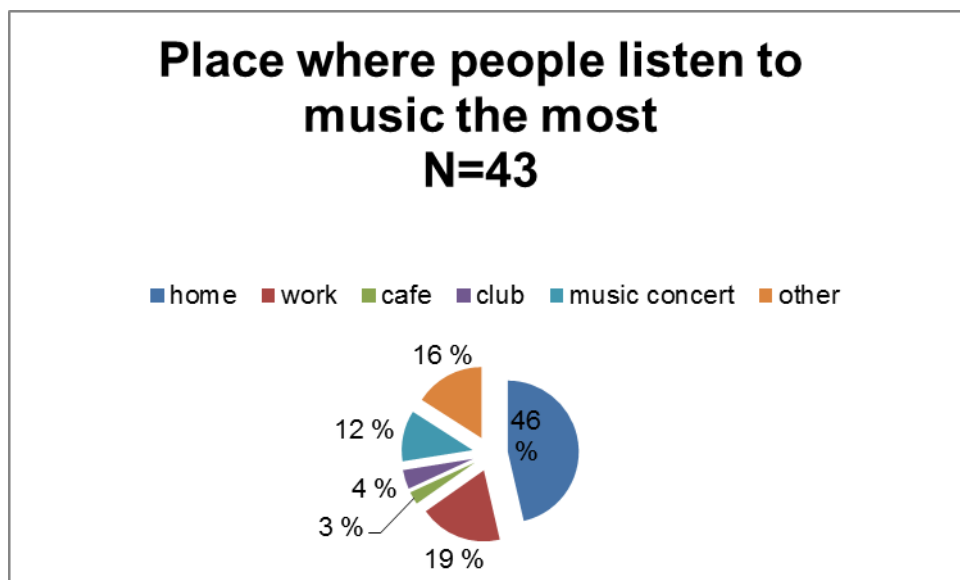


Figure 8. Place where people listen to music the most

Almost half (46%) of the people prefer to listen to the music at home. Every fifth (19%) listen to music at work. Only few of the respondents chose cafes and clubs as a place to listen to music.

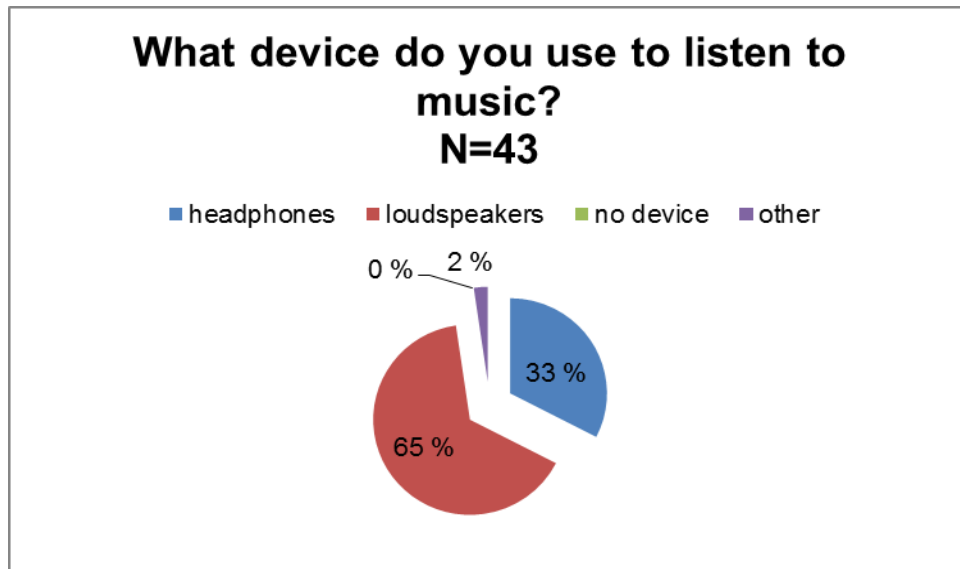


Figure 9. Device people use to listen to music

It was important to know what device people use when listening to music. Every second respondent use loudspeakers as their main device to listen to music, and every fourth prefer to use headphones.

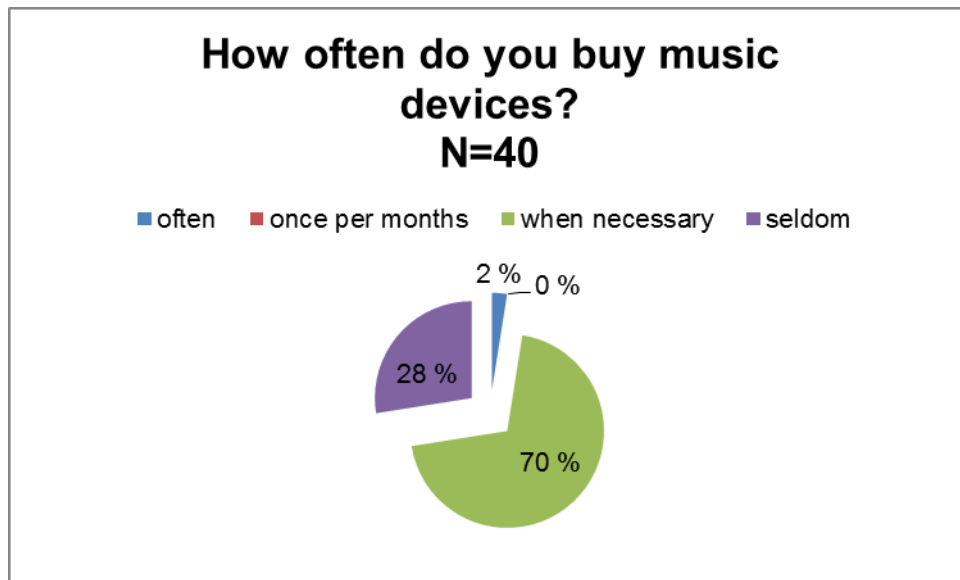


Figure 10. How often people buy music devices?

The frequency of buying music devices is high and rational. The respondents tend to buy music devices when it is necessary ( 70 %).

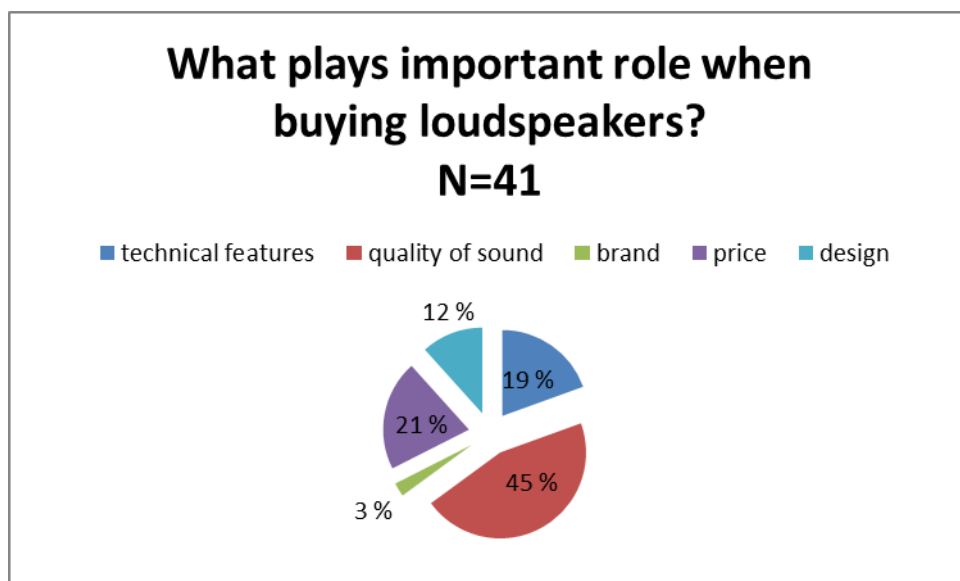


Figure 11. What plays important role when buying loudspeakers?



Based on the data from the poll illustrated by Figure 15, top three criteries to buy loudspeakers are: quality of sound (45%), price (21%) and technical features.

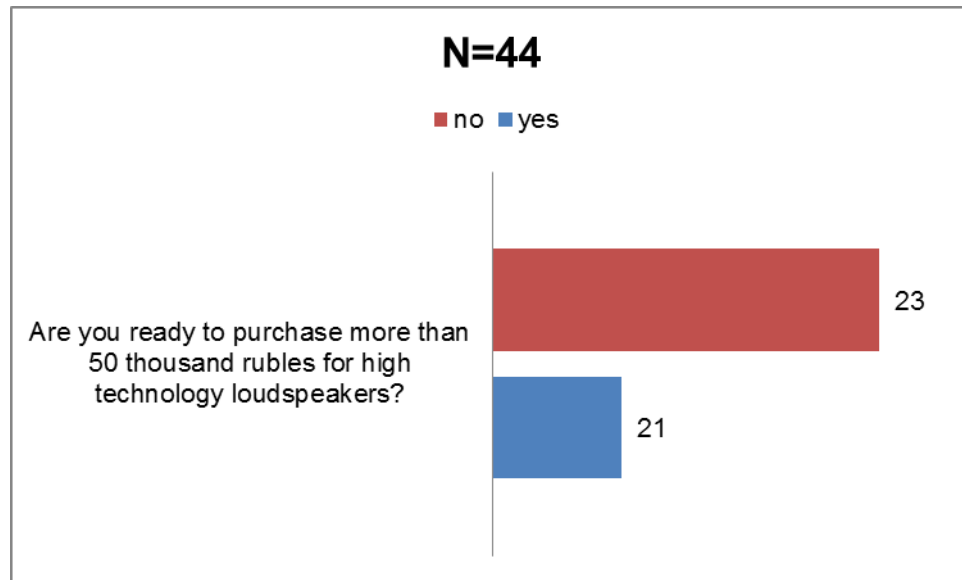


Figure 12. Willingness to purchase more than 50 thousand rubles (~ 600€) for high technology loudspeakers

The last question was asked to see if people are ready to purchase this big sum of money. The question was referred to the Prime Loudspeakers, because the price of them is around 600 euros, so it was important to find out the willingness to purchase for hi fi loudspeakers. Based on the data from the poll every second respondent (52 %) is willing to buy high technology loudspeakers. And every third respondent (48%) is not ready to make such purchase. This question had an open box for comments and 34 % of the respondents gave a reason for their decision. The most comments say that the price is too high. Some people answered, that for home use purposes they can buy cheaper speakers.

Table 2. Potential Customer Profile

Potential Customer Profile	
Age	18-35
City of Residence	north-western part of Russia
Occupation	working
Frequency of listening to music	every day
Place of listening the music	home and work
Device for listening the music	loudspeakers
Frequency of buying music devices	when necessary
Important criteria when buying loudspeakers	quality of sound, price, technical features
Willingness to spend ~ 600€ for hi fi loudspeakers	no, too expensive, there are other alternatives with a lower price

The survey was just a preliminary starting point, just to see how much people value music, if they use loudspeakers to listen to music, where they prefer to listen to the music and if they are ready to purchase big sum of money for a good quality speakers. The survey showed, that most of the respondents are working people, who like to listen to music and they use loudspeakers as the main device. Therefore the demand for the loudspeakers exists, but they are not willing to pay much for high technology speakers, due to the existence of alternative speakers with a lower price. This survey is not very reliable source in terms of making final portfolio of the potential customers; it was just a ground test.

Another primary source which was used to get a better understanding of customers' preferences of hi fi audio equipment was forum groups. The author made an investigation by registering in a popular Russian forum hi-fi.ru. and observing the current tendencies in the hi-fi industry. The author asked the question about the fact that the speakers made of stone, and tried to see the attitudes about it. Most of the people were skeptical to this fact, and start to

question the technical features of the speakers. But the main reason of skepticism is that, people prefer to listen and test the speakers in real life, not just read and imagine. One person from the forum turned to currently live in Finland and he wrote that he had a chance to listen to the speakers made from stone.

*“...Stone loudspeakers are as good as speakers made from any other material. Also speakers made from stone bring to the product image of solidity and strengths, as well as design with new material and nature of luxury class...”*

Stone speakers is a debatable topic among experts in hi fi world, and for some of them it can be an interesting product to have. But the usual customer, who does not know much about technical features of the sound, might not be so interested in purchasing the product, except for buying the unique design.

### **3.3 Data analysis**

Saunders, Lewis and Thornhill (2009, 124) define two main research approaches: deductive and inductive. In a deductive approach the author uses the existing theory to develop hypothesis and through his work test them. The inductive approach is used when there is no existing theory, the author is collecting data to develop it into the theory as a final result. The inductive approach was implemented as the data was being collected through forum groups and interviews, as well as conduction of poll, after which the sufficient knowledge was gathered and theory was formed.

This research adapted qualitative and quantitative methods; therefore different techniques were used to analyze different types of data. The quantitative data was collected through conducting the poll. After the data was analyzed by following the stages introduced by Wilson (2010, 214-217), preparing, summarizing and presenting the data. The data was prepared and

summarized with the use of excel and presented through diagrams (pie and bar charts).

The qualitative data, which is data collected through forum groups and unstandardized semi structured interviews was analyzed through four analytical steps introduced by Wilson (2010, 255): transcribing the data, reading and generating categories, themes and patterns, interpreting the findings and writing the report. The process of transcribing the data was simplified, because the interviews were conducted electronically and the responds were already presented in the written form. After gathering all the interviews the author generated few themes which helped to interpret the findings.

## **4 Results**

### **4.1 Hi-fi audio market in Russia**

Russian market of hi-fi audio equipment is functioning through importing the products from other countries. There is no domestic strong manufacturer, which makes the Russian market very attractive place for foreign manufactures to bring their hi-fi audio products. Therefore, this market is operating through the distribution of foreign hi-fi equipment to Russian customers. There is a wide range of brands from different countries exporting their products to Russian distributors, who then make it accessible for the Russian end customers to get the desired product.

Annually, the market of hi-fi audio is being updated with audio equipment approximately by 10 %. Western Europe is the leader in the production of hi-fi equipment and the main supplier with the wide range of hi-fi acoustics for Russia. The hi-fi audio market customers tend to trust in the brand name and their feelings more than the technical aspects of the product. Therefore, it is highly important for the hi-fi companies to build their brand and be recognizable. Certainly the technical characteristics of the product are important but the customer tends to trust in the products of a well-known brand. The strongest brands present in the market include: Audica, Audio pro, Bowers&Wilkins, Jamo, Genelec, KEF, Dali, Yamaha etc.

Hi-fi audio belong to the category of relatively expensive equipment. Thus, the main target audience is middle/upper class people who value music, the quality of sound and can afford to buy this kind of product. Hi-fi equipment is a lasting creation, which makes it hard to convince the customers in the need to replace their old audio equipment with a new set. Most of the customers when choosing the right product tend to follow the opinion of experts (magazines, forum groups, advices from experts), as objectively evaluating audio equipment in the stores is difficult, and sometimes impossible. The market of hi-fi audio is rather authoritative and “the rules of the game” are dictated here

by large companies with a long history, of the products familiar to many generations of music lovers. The brand name in the hi-fi industry is very important. No matter how good the new speakers are and how low the price is, it is hard to compete with already existing strong brands at least at the beginning. As a solution newcomers have to find niche in the market by offering something never offered before. (Ilyin, 2008)

To bring hi fi audience, producers and distributors together and also to share the news in this sector and be constantly updated, the analytical Internet based magazine hifiNews.ru was launched in December 2004. The opening of hifiNews.ru became the first industry platform for the professional market participants importing hi fi equipment. One of the major tasks of this portal is to provide Russian consumers complete, objective and useful information about the industry as a whole product line and professional players forming the "face" of the market. HifiNews.ru is one of the leading websites dedicated to the hi-fi industry in Russia. The major activities of hifiNews.ru include:

- publication of independent, reliable news, reviews and hi-fi equipment tests
- providing an opportunity for interactive communication and exchange of experience between professionals and high-quality hi-fi equipment enthusiasts
- providing assistance for consumers in choosing hi-fi products and reliable retailers
- promoting companies, goods and pioneer products on the market

Based on the official statistics of HifiNews.ru, the majority of the audience consists of men (about 90%); women make up only 10%. The majority of the visitors (~70%) have an average and above average income, 5-10% have a high income. 80% of visitors are employed, half of them work in commercial organizations, 12% have their own business, another 7% are freelance. The target audience is characterized by an aspiration for development and keeping pace with the progress and global achievements of hi tech industry as well as

sense of style and considerate attitude to the quality of audio equipment and surrounding interior. (HifiNews.ru official web site, 2015)

SuperStereo.ru, one of the leading companies on the market, provided its opinion on the general situation on the Russian market of hi-fi equipment. According to SuperStereo.ru, hi-fi audio is relatively small sector and do not face big changes, which can be seen in the sector of mass electronics. The small size of the market gives more flexibility to react on the overall changes that countries can face, for instance economic crisis.

Michael Kuchment, senior manager of marketing products of the Russian representative office of "Samsung" gave his opinion of the Russian consumer behavior for the audio equipment consumption:

*"Russian buyers still refer to audio equipment as to something very expensive. Often Russian consumers continue to perceive this kind of electronics as a thing that you can buy once or twice in a lifetime. Meanwhile, high-tech development makes audio equipment more affordable for a larger audience".*

Sergey Krutiy, manager of audio production of the Russian representative office of Philips said:

*"To have good quality audio equipment at home is not only prestigious, but also really necessary for the person who considers himself as a music lover. To spend big sum of money on a good collection of CDs and listen to them on bad equipment - is absurd".*

It is very common for Russian mentality to purchase products with well-known brand, imported from abroad and relatively expensive. High price and brand play significant role on the buying decision. It is an indicator of good quality and luxury. The price is important because all the people want but not all can afford something brand known and expensive. Therefore it prevents many Russian customers from buying audio equipment, especially hi-fi.

Most of the the hi-fi audio equipment is imported and spread to the Russian market through distribution channels. It is significant to send samples of the products, so that the Russian customer will have a chance to listen to the quality of sound and make its final decision. It is not enough just to look through some internet catalogue and read the technical parameters there. The most valuable is the sound check. Dmitriy Panin, sales manager of hi-fi and hi-end equipment of A&T Trade said:

*“Selection of high quality and expensive equipment – is the deeply personal process. It all depends on the taste: someone likes clear sound of high notes and someone likes assertive bass. Real music fan many months will go to salons and himself listen to the sound equipment of various brands”.*

## **4.2 Competitors**

There are no direct competitors on the Russian market, producing alternative loudspeakers like Prime Loudspeakers Oy. Nevertheless there are many indirect competitors, companies that manufacture the loudspeakers with relatively similar technical features and the same purpose of use but made with different materials.

One of the indirect competitors can be Finnish company Olavi Räsänen Oy (OR Group). This company is present on the market since 1970. In 2004 the company has bought trademark of Chorus and together with that the rights on the production of their loudspeakers. Both of the trademarks produce hi-fi systems as well as systems for home theater and active subwoofers. Loudspeakers of OR and Chorus are manufactured by using components of European and Scandinavian producers. As well as Prime, OR group is also using Norwegian drivers SEAS.



The loudspeakers under this company are designed to generate natural sound and accuracy in reproduction. Many test awards have contributed to a great success. Some of the types of OR Group loudspeakers were tested by Tekniikan Maailma. It is one of the leading automobile magazines in Finland and the biggest all around technology magazine in Scandinavia. After the testing some of the loudspeakers received four stars of quality and positive reviews from the testing group, proving that those loudspeakers have natural sound and good technical qualities.

OR Group is a potential competitor, because it produces loudspeakers with the same aim to have the natural sound and they are already present on the Russian market. The distributor of OR Group in Russia is Viking. It is the largest company in St Petersburg which is working in the presentation technologies area. Besides OR Group it is an official distributor of Mitsubishi electric, Sony, Panasonic, Kramer, Sanako, Genee World, Data Harvest, Data Harvest etc. This company is being on the market over 20 years and is presenting well-known brands of audio equipment. (OR Group, 2014)

The company Penaudio is another potential competitor in Finland as well as globally, including Russia. Penaudio was created in 1988 and been on the market over 26 years. During the time the company expanded its product selection, and has wide range of various loudspeakers. The main priority of the company is the quality of sound. The Founder of Penaudio, Sami Penttilä, values the quality, originality and naturalness of his loudspeakers. "I want people to choose Penaudio not for its brand but for its quality. After that Penaudio means quality to them." – stated Sami Penttilä on the official company's website.

Penaudio, has loudspeakers, both passive and active. As well as Prime Loudspeakers, Penaudio is using SEAS drivers. The company is present on the Russian market through Audiomania, as their main distributor. Penaudio also is very active considering participation in different related to hi-fi audio equipment exhibitions and fairs. In November 2013 it represented itself on the

hifi Expo, Helsinki, where the case company Prime Loudspeakers Oy was also taking part. Penaudio is not a very popular hi fi brand. It is a small manufacturer, but with its niche on the market. It also has its strategy in order to keep up with the stream. Currently the company updated some of their speakers with new features and made lower price strategy only for the Russian market, due to the current economic situation. (Audiomania, 2014)

Genelec is another Finnish company. It was founded in 1978. The core of the company is professional audio monitoring. Genelec speakers offer reliability, neutral sound reproduction regardless of size, as well as the ability to adapt frequency response to the listening environment. Over the time the company expanded its product selection, and now concentrates not only on professional audio monitoring, but also for home audio, music creation, AV installations. The company is present on the Russian market. The main distributor is Audiomania. Pult.ru also cooperates with Genelec. (Genelec, 2015)

Another potentially indirect competitor can be Dutch company Dali. The company is operating on the market from 1983 and produces large amount of various high quality audio components. Dali's products can be recognized by their design, presented in silver and black.

The main idea of Dali as a manufacturer is that the customers are looking for the right combination of size, shape, quality of sound and the price. Therefore the aim of the company was to create loudspeakers with excellent natural sound for a reasonable price. Dali has a wide range of types of loudspeakers from the economical to luxury types.

Dali has satisfied customers in different parts of the world which is a sign of successful work of the company and indicator of the high quality of the loudspeakers. The main distributors of the company are Pult.ru and Audiomania. Due to responsible approach to the loudspeakers production, Dali has a low percentage of defects. Each speaker has a signature of the producer, which guarantees the quality of the production.

One of the keys of success for Dali became the production of their own drivers, together with engineers of the company and the experts from companies, producing drivers. These unique drivers help to create the loudspeakers, which will reveal the good sound of your favorite music. (Dali, 2015)

Another indirect competitor is Swedish company Audio Pro. The company is operating for more than 30 years and is a leading European manufacturer of speakers. Products of Audio Pro are available in more than 40 countries. The company entered Russian market in the middle of 90<sup>th</sup>. Audio Pro loudspeakers have a lot of advantages such as good design, reliability, years of experience of manufacturing loudspeakers etc. (Audio Pro, 2015)

### **4.3 Potential customers**

As mentioned previously the Russian market doesn't produce hi fi audio equipment directly, but it has large scope of distributors, selling various types of foreign brands of hi fi acoustics. Therefore it is very important to find and cooperate with strong Russian distributor when entering the Russian market of hi fi audio. Distributors are the potential business customers for the Prime Loudspeakers Oy.

Figure 17 below demonstrates the ways through which distribution channels people tend to buy consumer electronics. It is clear that the majority of the customers prefer to purchase through store-based retailers. Russian customers tend not to trust Internet retailing very much, but over the years this tendency has been changing.

% retail volume	2008	2009	2010	2011	2012	2013
Store-Based Retailing	93.4	90.2	88.9	87.8	85.8	84.8
- Grocery Retailers	2.7	2.6	2.4	2.2	2.1	2.0
-- Discounters	-	-	-	-	-	-
-- Hypermarkets	2.7	2.6	2.4	2.2	2.1	2.0
-- Supermarkets	-	-	-	-	-	-
-- Other CE Grocery Retailers	-	-	-	-	-	-
- Non-Grocery Retailers	90.7	87.7	86.5	85.6	83.7	82.8
-- Electronics and Appliance Specialist Retailers	84.0	81.9	81.2	80.9	80.6	80.2
-- Mixed Retailers	1.0	0.9	0.8	0.7	0.6	0.3
-- Other CE Non-Grocery Retailers	5.7	4.9	4.5	4.0	2.5	2.3
Non-Store Retailing	6.6	9.8	11.1	12.2	14.2	15.2
- Direct Selling	-	-	-	-	-	-
- Homeshopping	-	-	-	-	-	-
- Internet Retailing	6.6	9.8	11.1	12.2	14.2	15.2
Total	100.0	100.0	100.0	100.0	100.0	100.0

Figure 13. Distribution of Consumer Electronics by Format: % Volume 2008-2013 (Euromonitor International official statistics, 2013)

One of the potential business customers for Prime Oy in Russia is Audiomania. The company was founded in 1997 as a chain of shops selling hi-fi and high end audio and video equipment. Nowadays, it has shops in Moscow and Saint Petersburg and delivers the products all over Russia. For three years in a row, Audiomania has been among top 100 online retailers according to the famous Russian magazine Kommersant. Audiomania has their real stores, where the customer can come and test the audio equipment, and get good customer service or there is an opportunity to buy the products online. (Audiomania, 2014)

Another potential distributor to work with is a company by the name of Alef. The company has been operating in the Russian market since 1997. It is one of the leading distributors of hi-fi and hi end equipment, and has its stores in many cities in different parts of Russia. Alef represents such brands as Ayon, Audio Note, Densen, Primare, Transrotor etc. Years of experience and a professional team of specialists enabled the company to earn the trust of their partners and manufacturers. Aleph participated in many international

exhibitions and is the winner of numerous awards in the field of promotion of hi-fi and high-end products in Russia. (Alef, 2014)

Pult.ru – a large online store of hi fi/ hi end equipment, as well as a chain of hi fi stores with fully equipped rooms to check the audio products and get good customer service and expert advice. The company is a distributor for brands such as Acoustic Enregy, B&W, Dali, Music Hall etc. (Pult.ru, 2015)

The distributors listed above are originally based Russian companies. In 2013, a Finnish company, Hi fi Studio opened an online shop in Russia. The company represents more than 60 brands of hi fi equipment. It has a service of home delivery in any part of Russia. The advantage of this company is that the delivery of products with a value no more than 1000 euro is tax free. The author assumes that the best way for the Prime Loudspeakers is to make cooperation with the Finnish Hi fi Studio and try to become visible through them. (Hi fi Studio opening fist online store, 2013)

#### **4.4 Assumptions of the experts about the future possibilities**

This chapter is based on the collected interviews. Two of the interviewees work in the companies, which are leading distributors of hi-fi audio equipment in Russia, representing many international brands. The interviews were held with hi-fi specialists from Pult.ru and Audiomania. The main idea was not to get specific answer of cooperation, because the interviewees were hi-fi specialist and not the managerial board of directors. The claim of talking to the managers was also made but none of them was willing to have conversation. Therefore the strategy of interviews was changed to get opinions and views about Prime loudspeakers, which will help to carry on with exploratory research and build assumptions about future possibilities for the Prime product on the Russian market. The idea of the interviews was to understand if the new product, with its technical features, unique design and particular price range is suitable for the new market. To introduce the product of Prime

Loudspeakers to the interviewees, the brochures with the description were sent. (See appendix 1).

### **Technical Features**

Distributor in a way is a representative of a company and its products in the new country. Therefore it is very important to choose a good distributor as well as for the distributor to find a good manufacturer. Russian hi fi industry is maintaining through distribution due to the lack of home manufacturers. Before they make cooperation and decide to represent a certain brand on the market, they analyze the product and it's potential along with the benefits.

Prime Loudspeakers Oy claim, that their product has good technical features and high quality of sound reproduction. Through the interviews with hi fi specialists, controversial opinions were received. One of the respondents, Oleg Aksenov, hi fi specialist at Pult.ru stated: *“As I understand Prime speakers are produced on high-quality Norwegian drivers SEAS. Previously I had been working with them and I know that the speakers which are made with those drivers will sound good. Overall the company is using high quality components”*. On the opposite side; Anton Setkin, hi-fi specialist at Audiomania, was pretty sharp in his answers and did not show any interest in the Prime speakers. He referred to the previous failures with relatively similar product like Prime (BlackSound, Burcev Audio). The author explains this controversy with the fact that Audiomania is already closely cooperating with two other Finnish companies (Genelec and Penaudio). Those companies have been on the market longer than the Prime Loudspeakers, and have stronger brand recognition, which makes them more attractive for cooperation with Audiomania.

### **Design**

Prime Loudspeakers product has a special design. The speakers are made with unusual for this type of product material – stone. For many people it sounds strange and impossible to have loudspeakers made of stone. But Prime Loudspeakers has proved the fact that it is possible, by introducing the

unique design with a combination of high quality. Nevertheless it is important to understand if the unusual material brings some value to the speakers. Oleg Aksenov said: *“....it is very unusual, therefore attractive. Additionally, stone is not responsive material, which is important for the speakers. Unfortunately I did not see these loudspeakers in real life and cannot give a full review.”* On another hand, Ludmila Belaevskaya, video designer at ATV broadcasting company shared her concerns about the weight of the speakers, which can limit the options of use. *“These loudspeakers are reliable from scratching, with good heat conduction”*- added Ludmila for the positive side of the design.

Nowadays there are some strong brands making speakers out of glass, which is also very unusual and can be a threat for a new brand like Prime. Most of the distributors prefer to work with companies, who have been long enough on the market and not very interested in promoting new brands. Most of the Russian distributors are very skeptical for the new companies in the hi-fi sector.

### **Price Range**

Hi-fi equipment is known for high quality of sound together with a high level of prices. Therefore price range can be an issue. Compared to the other hi fi loudspeakers, the price for Prime product is somewhere in the middle. Nevertheless it is relatively high for the Russian customer, especially nowadays with unstable economic situation. Oleg Aksenov shared: *“The difficulty to enter Russian market can be in high price. Also the majority of customers prefer the traditional speakers with wooden cabins.....there was a similar Russian company Virtual Acoustics , that was making speaker from marble. Nowadays the company does not exist anymore....”*

## 5 Conclusion

Finland is known as a country of innovations. This research has been focusing on one of the innovative products which were made by the Finnish company Prime Loudspeakers Oy. The Russian market is a good test platform for the case company to expand and try out their products.

The main aim of the research was to conduct an analysis of the Russian market of hi fi audio equipment in order to assist Prime Loudspeakers in their future managerial decisions. The company wanted to see the potential distributors, who could sell Prime loudspeakers in Russia and also the potential profile of the future customers. This research was meant to be a basis, a good starting point for further more conclusive research.

As the research objectives, the author intended to define potential customers, their preferences and tastes related to the product, the prices they are willing to pay and to reveal the potential competitors. Through the primary data, the author collected some valuable information about hi fi audio systems in Russia through the opinions of different specialists working in this area, through interviews and observations in the analytical Internet based magazine hifiNews.ru. Through the interviews, the technical features, design and price range were discussed in terms of how suitable the product with its features would be for the Russian market. The main finding is that the product is unique in its nature. Nowadays, there no other companies manufacturing speakers made of stone. Nevertheless, the main problem is the high level of uncertainty of the market and the high price of the product may be a big threat for Prime Loudspeakers.

The research design was exploratory because there was little information available about the hi-fi industry in Russia. Therefore, the author acted as an investigator building some assumptions and through primary data collection trying to get some answers.



Throughout the research, several potential distributors were revealed. One of them is the Finnish company Hi-fi studio, which opened its online store in Russia. It represents more than 60 brands and has tax free benefits under a certain price range. Another good finding is the analytical Internet based magazine hifiNews.ru. It can help Prime Loudspeakers Oy to promote their product in the market and publish fresh news about the hi-fi audio systems. Through hi fi forums, the author found out that the majority of people tend to buy loudspeakers in special electronic stores or showrooms, where they can test the equipment and check the sound on their own. Most of the people on the forums tended not to trust only the descriptions of the technical features and then buy the product. Another thing observed in forums is the trend of combining high quality and unique design. People prefer to buy hi fi speakers for home use and to fit them in the home interior. Therefore, it opens new possibilities for Prime loudspeakers because the product of the company has those two qualities. Another way to start cooperation with a distributor and enter the Russian market is through participation in some related trade fairs. The nearest hi-fi trade show will be arranged at the beginning of April.

The market of hi fi audio is rather authoritative and “the rules of the game” are dictated here by large companies with a long history. The brand name in the hi-fi industry is very important. No matter how good the new speakers are and how low the price is, it is hard to compete with already existing strong brands at least at the beginning. As a solution for newcomers, in particular Prime Loudspeakers Oy, they should find a niche in the market by offering something what never offered before.

## **5.1 Reliability and Validity**

In order to assure good quality of the thesis, reliability and validity issues need to be considered. Reliability refers to the consistency and repeatability of the research results. Validity refers to the research questions of the thesis, if they were answered as was intended or not. (Kananen 2011, 66-67) Reliability also

applies to the credibility of the measurements in the research. According to Golafshani (2003, 599), Joppe(2000) stated that validity determines if the research measures that what it was intended to measure or how truthful the research results are.

In terms of reliability of this research, the author used reliable sources of information. For the theoretical part the author used trustworthy databases to find publications related to the topic, official statistics, as well as information from official case company website. When the author was revealing the competitors, their official websites and online publications were used, the same way the potential distributors were described, official publications and statistics from the trade fairs were applied. To get a complex, detailed understanding of the issue and make the research reliable, the author used qualitative and quantitative data collection methods. Conducted interviews brought the attitudes and opinions of the case company's product from different segments. Nevertheless, just the usage of interviews as a main source is not enough to be a reliable source. One of the interviewees is a representative of the company who has partnerships with some other Finnish companies producing loudspeakers, so his opinion cannot be one hundred percent reliable due to the existing business relations with competitors. The poll, as a quantitative data collection method, helped to bring another side of the researched topic. The poll gave as a general idea about the potential customer. The sample size was small, so the results of the poll might change if the size of the sample will be bigger. It was just a preliminary study to check people attitudes towards music and loudspeakers in particular. Generally the research can be considered reliable due to the effort the author put in the research process, data collection, analyses and formulating the results. It was very challenging process, because several obstacles appeared on the way. There was no available information in terms of hi fi industry, only electronics in general. Additionally, it was difficult to convince people to be interviewed. From ten potential interviewees only three agreed on it. The rest were willing to be interviewed only if they would be paid for it. Despite all the obstacles on

the way, the author put big effort in this research in order to come out with clear results which potentially be useful for the case company.

In terms of validity, in order to measure if the research reached its objectives as was intended, the author stated clear research questions which were answered through the research and presented in the result section. The main objective was to analyze the Russian market of hi fi audio equipment, which will help the case company Prime to make a decision whether to expand its operations to the Russian market or not. As was stated before, there was not a lot of information available about hi fi audio industry, but the author utilized the available and primary collected data to come up with a clear outcome on the situation of the hi-fi audio on the Russian market.

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## Appendices

### Appendix 1. Prime Loudspeakers Brochure



### Appendix 2. Dynamics of foreign trade 2010-2014



### Appendix 3. Poll

Original text	Translated in English
1. Ваш возраст	1. Age
2. Место проживания	2. Residence
3. Ваш род занятий	3. Occupation
4. Как часто вы слушаете музыку?	4. How often do you listen to

	music?
5. Где вы чаще всего слушаете музыку?	5. Where do you often listen to music?
6. С помощью какого устройства вы слушаете музыку?	6. Which device do you use to listen to music?
7. Как часто вы покупаете музыкальное оборудование?	7. How often do you buy music equipment?
8. Что для вас играет главную роль при покупке музыкальных колонок?	8. What plays the most important role when buying loudspeakers?
9. Вы готовы потратить более 50 тыс. рублей на покупку высокотехнологичных музыкальных колонок?	9. Are you ready to spend more than 50 000 rub for high quality speakers?

#### **Appendix 4. Interview Questions (Original / Russian)**

1. Ознакомившись с продукцией компании Prime Loudspeakers, что вы думаете о данных колонках?
2. Что вы думаете о технических параметрах данных колонок?
3. Вас привлекает, то что данные колонки сделаны из камня?
4. Как вы считаете, есть ли потенциал у данной продукции на русском рынке?
5. По вашему мнению, кто может являться главной целевой аудиторией для данной продукции, изучив их особенности?
6. Какие на ваш взгляд могут возникнуть сложности, при вступлении на русский рынок?
7. Есть ли у данной продукции аналоги на русском рынке?



**Appendix 5. Interview Questions (Translated in English)**

1. After being familiarized with Prime Loudspeakers' product, what can you say?
2. What is your opinion about the technical features of the speakers?
3. Do you find attractive the fact that the speakers are made of stone?
4. Is there a potential development of the product on the Russian market, on your opinion?
5. Who can be the main target audience for this product, based on your opinion?
6. What do you think, what difficulties the company might face when entering the Russian market?
7. Are there any similar products on the Russian market which you know?